

FEDERAL ELECTION COMMISSION

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JUN 26 12 27 PM '98

FIRST GENERAL COUNSEL'S REPORT

RE: MUR 4621

DATE COMPLAINT FILED: 2/26/97

DATE OF NOTIFICATION: 3/5/97

DATE ACTIVATED: 10/27/97

Staff Member: Marianne Abely

COMPLAINANT: Mike Zuhl, Chairman, Utah State Democratic Committee

RESPONDENTS: Cook 98 Re-election Committee and Avis Lewis, as Treasurer
Representative Merrill A. Cook
R.T. Nielson Company
Phillips, Twede & Spencer, Inc.

RELEVANT STATUTE(S): 2 U.S.C. § 431
2 U.S.C. § 434(b)(8)
2 U.S.C. § 441(b)(a)
11 C.F.R. § 100.7(a)(4)
11 C.F.R. § 100.8(a)(1) & (2)
11 C.F.R. § 104
11 C.F.R. § 111.4(2)
11 C.F.R. § 114.2(b)
11 C.F.R. § 116

INTERNAL REPORTS CHECKED: Disclosure Reports
CED Correspondence

FEDERAL AGENCIES CHECKED: None

I. GENERATION OF MATTER

MUR 4621 originated with a complaint filed by Mike Zuhl, as chairman of the Utah State Democratic Committee (hereinafter "USDC"). This complaint cited what the USDC believed were specific violations of the Federal Election Campaign Act of 1971, as amended, (hereinafter "FECA") committed by Congressman Merrill Cook and the

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Cook for Congress Committee (hereinafter "the Committee").¹ The R.T. Nielson Company (hereinafter "Nielson") and Phillips, Twede & Spencer, Inc. (hereinafter "PTS") were vendors hired by Merrill Cook to provide consulting services during the 1996 congressional campaign. Both firms are, and were during the relevant time period, incorporated in the state of Utah. The candidate and Nielson entered into a written contract on March 5, 1996 whereby the company was to perform a myriad of campaign related services, including general management, advertising, polling and PAC fund raising. Sometime in March 1996, PTS was retained through an oral agreement to provide advertising and related services on an 'as requested basis'.

II. COMPLAINT AND RESPONSES

A. THE COMPLAINT

The USDC alleges that Merrill Cook and his campaign committee failed to settle certain of its 1996 campaign debts for the entire amount owed, or alternately failed to appropriately report said debts in violation of 11 C.F.R. § 116. The Democratic organization also asserts that these payment and/or reporting deficiencies might have resulted in the Committee's receiving contributions pursuant to 11 C.F.R. § 100.7(a)(4). While not specifically naming Nielson or PTS as respondents in the complaint, the document does point out that any contributions by the two might be prohibited as corporate donations pursuant to 11 C.F.R. § 114.2(b) or could be in excess of the allowable limits, per 11 C.F.R. § 110.1.

¹ In 1996 Merrill Cook won election to Utah's Second Congressional District. At that time, the Cook for Congress Committee was his principal campaign committee. On March 24, 1997, the Committee notified the Federal Election Commission via the filing of an amendment to its Statement of Organization that it had changed its name to the Cook 98 Re-election Committee.

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As grounds for these charges the USDC cites a Nielson press release issued on January 24, 1997 and an article appearing in the January 25, 1997 Deseret News.² The press release states that the Cook campaign was in arrears for over \$200,000 and quotes the company's president, Ron T. Nielson, as being "...concerned that Merrill Cook is forcing us to carry a loan for the campaign, which may be in violation of FEC law." Mr. Nielson also stated that "... a FEC violation has occurred in reporting debt amounts as well." The release indicates that the firm had filed suit against the candidate. The newspaper article reiterates Nielson's charges and also states that PTS was close to filing suit against the Cook campaign to recoup \$16,000 in consulting fees. According to the article, both Nielson and PTS disputed the accuracy of the amount of debt that the campaign had reported to the Federal Election Commission (hereinafter "Commission" or "FEC"). The two firms are reported as claiming that the moneys owed them amounted to much more than the \$53,000 listed in the Committee's FEC filings. According to the USDC, these published materials are evidence that Merrill Cook and his campaign committee failed to accurately report expenditures, contributions and/or loans and failed to disclose the acceptance of illegal contributions or loans from the two named vendors.

B. RESPONSES

1. Response of Merrill Cook and the Cook 98 Re-election Committee

In a joint response, Congressman Merrill Cook and the Cook 98 Re-election Committee deny the veracity of the press release and the news article used as the primary

² Both items are appended to this report as Attachment 2. See, R.T. Nielson Company Press Release, *Cook Consulting Team Quits Because of Non-payment*, January 24, 1997 and Bob Bernick, Jr., *Firms Say Cook Refuses to Pay Up*, Deseret News, January 25, 1997.

basis for the USDC's complaint. The respondents dispute the allegations of faulty reporting and acceptance of prohibited contributions.³

The respondents go to great lengths to refute the charges made with regard to Nielson. Included in the response package were: a copy of the standard form contract provided by Nielson and signed by both parties on March 5, 1996; copies of selected FEC filings; copies of some invoices; memoranda; correspondence; a document entitled Settlement Agreement and Agreement for Services; and the Stipulation of Dismissal without Prejudice stemming from the suit filed against the Committee by Nielson. The respondents contend that they were in conformance with the written contract that specifically delineated each party's rights and obligations.

In its response the Committee basically presents a scenario in which there was a breakdown of the business relationship between the campaign and Nielson resulting in a "garden variety billing dispute" over the amount of money owed to the campaign management firm. It is the respondents' position that the consultant breached the service contract in a material way, specifically through a failure to perform its duties in an adequate manner and through grossly overbilling the campaign.

The respondents assert that it was only after the November election that they became aware that there was an outstanding balance on the Nielson account. The Committee states in the response that it was the vendor who informed the campaign that the debt existed and was the source of the \$37,441.66 figure appearing in the 'debt

³ The Committee initially attempts to argue that the USDC's complaint is insufficient to trigger Commission action because the document was not signed and sworn under the pains and penalties of perjury. However, this complaint did in fact conform with FEC regulations as it was sworn to and signed before a notary. 11 C.F.R. § 111.4(2).

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incurred this period' column on the Form 3 Schedule D of the 1996 30 Day Post-election Report. Following the filing of this report and prior to the Committee's amendment of same wherein the existence of a disputed debt was revealed, Nielson apparently made several attempts to negotiate an agreement on the balance owed for amounts that were significantly larger than that disclosed in the above-referenced report. Correspondence dating from December 1996 and a document entitled Settlement Agreement and Agreement for Services, which the Committee included in its response, show that the consulting firm was claiming amounts ranging from \$96,689.54 to \$173,132.87. According to the Committee, Nielson's demands for payment were wildly escalating during this period and the amendment and subsequent disclosure reports accurately reflected the development of a debt dispute between the two. An amended 1996 30 Day Post-election Report, along with a cover letter dated January 31, 1997, did reveal that the Committee's obligation to Nielson was in dispute and had in fact become the subject of a lawsuit.⁴ The amended Form 3, Schedule D showed that the debt, which had previously been reported as \$37,441.66, stood by their calculations at \$7,128.32. The vendor, per the report, was claiming a debt of \$176,182.86. The only changes in the Cook Committee's subsequent disclosure filings have been in the amounts claimed by each party. In the 1996 Year End disclosure report, Nielson is said to be claiming \$179,362.17. Beginning with the 1997 Mid-Year Report, the Committee provides the additional information that, based on a professional legal accounting, Nielson in fact

⁴ The suit filed by Nielson was dismissed without prejudice on February 12, 1997. A possible mediation of the dispute mentioned in the response never took place. And, although Nielson proposed in writing that the two settle their dispute, based on the campaign's disclosure forms, this has never come to pass.

owes the campaign \$5,783.33. It is the respondents' position that they cannot be accused of violating FECA given their compliance with the disputed debt reporting standard set out in 11 C.F.R. § 116.10.

With respect to PTS, the respondents claim to have accurately and completely disclosed all debts and disbursements. To support this contention, copies of the relevant FEC Form 3 Schedule Bs and Schedule Ds as well as an executed Memorandum of Understanding and Agreement were enclosed with the response. As of the 1996 30 Day Post-election Report, filed on December 4, 1996, the Cook Committee reported that it was \$6,583.99 in debt to PTS for T.V. production services.⁵ The amended report, filed with the Commission on January 31, 1997, states that this debt was in fact \$13,006.65 with the cover letter specifying that the amount was not in dispute. A payment of \$4,012.56 was made to PTS on December 19, 1996, as reflected on the 1996 Year End Report. According to the Committee's 1997 Mid-year filing, the remainder of this debt was extinguished with a payment of \$8,994.09. There was no narrative supplied on the Form D to describe the circumstances under which the debt was paid off. According to the response, this payment was in fact the result of a "...settlement agreement resolving the billing dispute wherein respondent agreed to pay PTS the outstanding balance of the debt..." This agreement was memorialized in a Memorandum of Understanding and Agreement which was signed by both parties on January 30, 1997. See Attachment 3. This document stipulated that the sum of \$8994.09 represented payment in full for all

⁵ Prior to this the Committee had reported a debt of \$10,000 incurred during the 1996 October Quarterly reporting period (7/1/96-9/31/96), which debt was paid off during the 12 Day Pre-general Reporting period (10/1/96-10/16/96).

services performed by the advertising agency and any of its subcontractors. The respondents' position appears to be with respect to this vendor that the debt was paid and therefore no violation of FECA can be said to have occurred.⁶

2. Response of the R.T. Nielson Company

According to the affidavit signed by Ron T. Nielson and attached to the response, this party agrees with certain of the allegations made in USDC's complaint. According to the consultant, Merrill Cook and his congressional campaign did indeed fail to correctly report the magnitude of their indebtedness as required by law. This respondent asserts, as was reflected in the January 24, 1997 press release and the Deseret News article, that the Cook campaign owes it in excess of \$200,000. A portion of the debt is alleged to have been outstanding for seven months. Nielson, however, denies that any discrepancies between what he asserts is actually owed and the amounts appearing on Cook's FEC disclosure reports constitute illegal loans or corporate contributions. The respondent supports this position by referring to a January 1997 complaint and attached documents that the company said it filed with the Commission regarding what it described as the campaign's 1996 election law violations.⁷ See Attachment 4.

⁶ Apart from the aforementioned disclosure documents and Memorandum of Understanding and Agreement, the Cook Committee did not provide any other materials relative to the specifics of the evolution of this debt and settlement, such as invoices, checks, billing statements or correspondence.

⁷ Despite this reference to an 'Exhibit A' within the body of Mr. Nielson's affidavit, no such materials were enclosed with the formal response. CED did however have a copy of an unperfected complaint filed by the R.T. Nielson Company. The packet of documents, received by the Commission on February 6, 1997, included the complaint as well as a copy of the previously mentioned press release, correspondence to the Cook campaign treasurer, Avis Lewis, and a copy of an R.T. Nielson billing statement. Of note is that neither the correspondence to Ms. Lewis (in which Nielson complains of inaccuracies in certain disclosure reports) nor the billing statement were produced as part of the Committee's response.

3. Response of Phillips, Twede & Stewart, Inc.

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This respondent denies that it has ever made, or intended to make, any contributions or loans to the Cook Campaign. According to the vendor, the actions that are viewed by the complainant as leading to in an illegal corporate contribution in truth reflected a deteriorating business relationship resulting in a run of the mill fee dispute which was resolved through a negotiated settlement. In addition to a copy of the aforementioned Memorandum of Agreement and Understanding (which reflected that the fee dispute was going to be resolved with a payment \$8994.09), this response contains a notarized affidavit made out by Ted Phillips which purports to outline the factual background behind the fee dispute and the subsequent settlement.

As stated previously, the Committee hired PTS sometime in March 1996 on an "as requested basis" to provide advertising services. The agency's responsibilities during the 1996 campaign included "...conceiving, creating, producing and placing both print and electronic media". Apparently at some point in the winter of 1996, the business relationship disintegrated. According to Mr. Phillip's affidavit, on or about December 15, 1996, PTS informed the Cook campaign that "...taking into consideration all of the payments Cook had previously made, Cook owed PTS an additional \$16,689.18 for services rendered." It is asserted in this document that the Committee had become dissatisfied with PTS' services and so sent the firm a letter (dated December 18, 1996) in which it proposed that the account be settled with the \$4,012.56 check enclosed therein.⁸ The letter apparently outlined claims by the Committee that the agency had overcharged

⁸ A copy of this letter was not included with PTS' response.

for services and that certain of those services were not rendered in a timely manner or performed as agreed. PTS, finding the allegations had no validity, did not accept the check as a final settlement, but instead applied it to the outstanding balance. With that payment the balance stood, according to Mr. Phillips, at \$12,676.62. Sometime thereafter the parties got together to work out their differences, which activities were described in PTS' response as including "...a number of discussions, planning sessions and negotiations". The result was that on January 30, 1997, the parties signed an agreement whereby the Cook campaign would tender a check for \$8994.09, which amount would be taken as payment in full for all services rendered. In his affidavit, Mr. Phillips states that both parties recognized that the other had raised "colorable claims" during the negotiations. Thus, according to PTS any difference between the amount paid and the amount that the firm originally claimed was owed represented nothing more than "...a negotiated compromise that took into consideration the various matters and claims raised" by the two.

III. FACTUAL AND LEGAL ANALYSIS

A. THE APPLICABLE LAW

Pursuant to Federal Election Commission regulations, an expenditure is a purchase or payment made to influence a federal election. 11 C.F.R. § 100.8(a)(1). A written contract, including a media contract, promise, or agreement to make an expenditure, is considered an expenditure as of the date the contract, promise or obligation is made. 11 C.F.R. § 100.8(a)(2). Agreements to make expenditures over \$500, including those memorialized in writing, must be reported as of the date that the

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debt or obligation is incurred. 11 C.F.R. § 104.11(b). This last point is, of course, true of all campaign debts and obligations, which must be reported in a committee's periodic disclosure filings. 2 U.S.C. § 434(b)(8). For as long as debts remain outstanding a political committee is required to continuously report their existence until such time as they are extinguished. 11 C.F.R. § 104.11(a). All outstanding obligations are to be reported in FEC Form 3 Schedule D, with specific references to: the amounts owed; the outstanding balance as of the beginning of the reporting period; the amounts incurred during that reporting period; payments made during that reporting period; and the outstanding balance at the close of the reporting period. Committees are also required to enclose with this schedule a statement setting out the amount(s) paid and explaining the conditions under which such obligations or debts are extinguished. 11 C.F.R. § 104.3(d).

A disputed debt is an actual or potential debt owed by a political committee, including an obligation arising from a written contract, promise or agreement to make an expenditure, where there is a bona fide disagreement between the creditor and the political committee as to the existence or amount of the obligation owed by the committee. 11 C.F.R. § 116.1(d). Disputed debts must be reported as described above if a creditor has provided something of value to that political committee. In addition, the committee shall disclose on the appropriate reports any amounts paid to the creditor, any amount the political committee admits to owing and the amount the creditor claims is owed. The report may also reflect that the disclosure does not constitute an admission of liability or a waiver of any claims. Continuous reporting of the dispute is supposed to continue until the matter is resolved. 11 C.F.R. § 116.10.

Should there be some confusion on the part of the treasurer relating to the exact amount of money claimed to be owed by a vendor, the regulations permit the committee to make a reasonable estimate of that figure and then make the appropriate amendment or correction when the exact amount has been determined. *See*, AO 1980-38. A committee is not required to report the fair market value of what was provided as that may be an issue in dispute. *See* Explanations & Justifications, 34 Fed.Reg. 48580 (11/24/89)

Pursuant to 2 U.S.C. § 431(8)(A)(i), a "contribution" is any gift, subscription, loan, advance or deposit of money or anything of value made by any person for the purpose of influencing an election for Federal office. 2 U.S.C. § 431(11) defines "person" as an individual, partnership, committee, association, corporation, labor organization or any other group of persons. It is unlawful for any corporation to make a contribution or expenditure in connection with any federal election to political office and for political committees to accept such donations. 2 U.S.C. § 441(b)(a).

Unincorporated and incorporated vendors, however, are permitted to extend credit to a candidate, political committee or other person in connection with a federal election provided that the extension of credit is in the ordinary course of the vendor's business practices and that the terms of the credit are substantially similar to extensions of credit to non-political entities. 11 C.F.R. § 116.3(a) & (b). Committees and vendors may not negotiate to have outstanding bills paid off for less than the full amount owed as this may result in a contribution to that committee, unless such debts are settled in accordance with the regulatory standards. 11 C.F.R. § 100.7(a)(4).

B. FACTUAL ANALYSIS

1. Merrill Cook, the Cook 98 Re-election Committee and the R.T. Nielson Company

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The materials available thus far indicate that the Committee and Nielson have been, and continue to be, involved in a dispute stemming from the 1996 election campaign, specifically over services rendered, invoices paid and moneys owed. The issue now before the Commission is whether the Cook campaign reported all of its expenditures as well as any disputed debts in a timely and appropriate manner. Many questions remain about the respondents' reporting practices due to deficiencies in the supporting documentation and the nature of the dispute between the two parties.⁹ Nonetheless, the information obtained to date appears to indicate that the Committee was not making certain expenditure related disclosures in accordance with the applicable regulations.

An examination of the material provided by the respondents suggests that certain of the obligations assumed by the campaign and delineated in the written contract were not appropriately recorded in the financial disclosure reports. For instance, according to the service contract, which was signed on March 5, 1996, the Committee was responsible for paying "\$40,000 for general contracting services through May 4, 1996. After May 4,

⁹ Only 21 out of 50 R.T. Nielson Company invoices were provided by the Committee. None of the ones provided were dated after October 16, 1996 although the Nielson billing statement indicates that 9 additional invoices were sent after that date.

The information furnished thus far appears to support the Committee's contention that there were significant problems with the vendor's billing practices. One obvious example of this is that while the service contract called for a bonus of \$5000 to be awarded upon the candidate's victory in the Republican primary, two invoices were in fact issued, one for \$5000 (#96172) and one for \$50,000 (#96199). Despite the inaccurate and inflated second bill, they were both paid. This type of activity makes it difficult to determine which items were legitimately reportable as expenditures.

1996 and during the periods of the primary and general elections Nielson shall receive \$4000 a month for general consulting." Bonuses of varying amounts were to be awarded for Merrill Cook's success in the May 4, 1996 Republican Convention (\$5,000), the June Republican Primary (\$5,000) and the November General Election (\$25,000). Pursuant to 11 C.F.R. § 100.8(a)(2) & 104.11(b), it appears that the initial contracting fee should have either been paid during the time period encompassed by the First Quarterly Report (1/1/96 - 3/31/96) and reported as an expenditure or disclosed as a debt on the Summary Page and on a Schedule D. The report submitted by the campaign recorded disbursements for campaign management to the R.T. Nielson Company totaling \$20,000. Nowhere in the disclosure report was there any indication that moneys were owed to this vendor. As it appears under the contract that there was a balance on the account of at least \$20,000, this should have been reflected as a debt incurred during that period. According to the regulations, such an obligation should have been continually accounted for under the categories of disbursements and/or debt until the full amount was paid off.

The contract appears to make the candidate's obligation to pay monthly consulting fees contingent upon his success in the Republican Convention and then in the Republican Primary. Expenditures were not incurred and therefore not reportable until these contingencies actually arose. This candidate was successful at the convention and then did go on to win the primary. Thus, it appears that the Committee was obliged to report as an expenditure one monthly consulting fee and a convention bonus of \$5,000 in the 12 Day Pre-primary Report. Once the candidate won the primary on June 25, 1996, it appears that his Committee should also have disclosed on the July Quarterly Report,

either as paid or as a debt, the \$5,000 primary bonus and the remaining consulting fees. It also appears that whatever amounts remained outstanding at the close of this reporting period should have been continuously reported until they were paid off. The contract also appears to dictate that once the candidate was elected to office a final bonus of \$25,000 was earned. Such a bonus was reportable during the time period encompassed by the 30 Day Post-election Report. It is unclear whether this bonus amount was included in the original disclosure form's Schedule D, which reports an incurred debt of \$37,441.66. The information available appears to indicate that there is a discrepancy between when certain of these obligations were incurred and when they were reported. The campaign reports moneys disbursed for campaign management in each of the relevant periodic disclosure documents filed up to and including the original 30 Day Post-election Report, but these sums are not clearly identified, do not seem to match the amounts agreed to in the contract, or conform to the reporting schedule dictated by the regulations. In addition, there is no identification in any of the disclosure reports of any expenditures made for the series of bonuses owed R.T. Nielson during the course of the campaign. The specific issue of reporting expenditures when incurred is not addressed by the Committee in its response.

The information that appears to reflect that the Cook Committee failed to report its contractually based expenditures on a timely basis is consistent with other instances where there may have been inaccurate reporting. The Nielson billing statement, which is addressed to the attention of the treasurer, Avis Lewis, appears to show that a debt to the vendor had been accumulating over the entire course of this business relationship. The

statement reflects an ongoing debt of fluctuating amounts as early as the time period reflected in the 1996 First Quarterly Report.¹⁰ This document tends to demonstrate that the Committee should either have been reporting additional expenditures to the R.T. Nielson Company throughout 1996, or it should have been reporting the existence of a gradually increasing disputed debt that rose to the figure of \$179,362.17. Although the figures set out in the Nielson billing statement do not actually indicate when any such reporting obligations arose, certainly this information appears to make the disputed debt issue one that requires further investigation. If there were indeed billing disputes between the campaign and the vendor prior to the election, then their existence should have been disclosed on the appropriate forms. Additional questions should be posed to both the Committee and Nielson to try and determine the true pattern of the campaign's expenditures and assumption of debt throughout the 1996 election cycle.

Beginning with the filing of the January 31, 1997 amendment to the 1996 30 Day Post-election Report, it appears that the Committee acted in conformance with the regulations by reporting the existence and nature of the disputed debt with the management consulting firm.¹¹ However, as stated above, there are indications that in

¹⁰ According to the R.T. Nielson billing statement, dated January 24, 1997, the following amounts remained outstanding at the end of each reporting period:

- 1996 First Quarterly Report (1/1/96-1/31/96) - \$29,000
- 1996 12 Day Convention Report (4/1/96-4/14/96) - \$8,000
- 1996 Pre-primary Report (4/15/96-6/5/96) - \$12,000
- 1996 July Quarterly Report (6/6/96-6/30/96) - \$30,384.31
- 1996 October Quarterly Report (7/1/96-9/30/96) - \$151,455.31
- 1996 Pre-general Report (10/1/96-10/16/96) - \$128,538.62
- 1996 30 Day Post-election Report (10/16/96-11/25/96) - \$176,182.86
- 1996 Year End Report (11/26/96-12/31/96) - \$179,362.17

¹¹ According to the Committee's disclosure reports, Nielsen has claimed a balance on the account of either \$176,182.86 or \$179,362.17. As stated previously, Nielson has asserted that the debt is in excess of \$200,00. While it therefore may be said that the Committee under-reported the amount of the Nielson debt by over \$20,000, the fact that the disputed amounts are relatively de-minimus and the figures were

fact the Cook campaign's indebtedness to the R.T. Nielson Company arose much earlier than is reflected in those reports. The contract signed by the parties, the Nielson billing statement, the disclosure records and, to a lesser degree, the invoices seem to indicate that obligations were incurred and services rendered throughout most of the 1996 electoral cycle without being reported appropriately as itemized disbursements or debts.

None of the disclosure documents or other materials provided in this matter support the complainant's assertion that these respondents violated 2 U.S.C.

§ 441(b)(a). While it does appear that the respondent committee was not performing its disclosure responsibilities in an appropriate manner, there are no indications that Nielson proffered or that the campaign accepted any prohibited corporate contributions.

Therefore, with respect to the first six filing periods of the 1996 campaign this Office recommends that the Commission find reason to believe that that the 98 Cook Re-election committee and Avis Lewis, as treasurer, violated 2 U.S.C. § 434(b) by failing to report its level of expenditures and disputed debts in a timely and appropriate fashion.¹² Given that there is no suggestion that the candidate himself had any involvement in these particular activities, this Office recommends that the Commission find no reason to believe that Congressman Merrill Cook violated 2 U.S.C. § 434(b). This Office further recommends that the Commission find no reason to believe that the R.T. Nielson Company, a registered Utah corporation, violated 2 U.S.C. § 441(b)(a) with respect to

apparently derived from documents generated by Nielson argues against treating these particular filing deficiencies as violations of 2 U.S.C. § 434(b).

¹² These six time periods include: the First Quarterly Report (1/1/96-3/31/96); the 12 Day Pre-convention Report (4/1/96-4/14/96); the 12 Day Pre-primary Report (4/15/96-6/5/96); the July Quarterly Report (6/6/96-7/30/96); the October Quarterly Report (7/31/96-9/30/96) and the 12 Day Pre-general Report (10/1/96-10/16/96).

the Cook campaign. In addition, this Office recommends that the Commission find no reason to believe that either Congressman Merrill Cook or the 98 Cook Re-election Committee, and Avis Lewis, as treasurer, violated 2 U.S.C. § 441(b)(a).

2. Merrill Cook, the Cook 98 Re-election Committee and Phillips, Twede & Stewart, Inc.

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The respondent committee is, and was during the relevant time period, an ongoing political committee. On December 10, 1996, the Federal Election Commission received from the Committee its 1996 30 Day Post Election Report (10/17/96 - 11/25/96). This filing revealed a \$3,000.00 disbursement to PTS as well as a debt to the firm in the amount of \$6,583.99 for television production. This debt was reported to have been incurred during that reporting period. On January 31, 1997, the Committee filed both an amended 1996 30 Day Post Election Report as well as its 1996 Year End Report (11/26/96 - 12/31/96). The cover letter to the amended filing stated that the Committee was reporting a change in the amount of its debt to PTS.¹³ This new debt figure was \$13,006.65. According to the cover letter, which was signed by the treasurer, there "...was no difference in the amount Phillips Twede Spencer is claiming and the campaign amount." The 1996 Year End Report showed that the beginning balance for this debt was \$13,006.65 with one payment of \$4012.56 having been made during that reporting period. The ending balance was reported to be \$8994.09. According to the Committee's next filing, the 1997 Mid-year Report (1/1/97 - 6/20/97), the debt to the advertising

¹³ It should be noted that as of the date that this letter was signed, January 31, 1997, the two parties had in fact agreed that two payments equaling \$13,006.65 would satisfy the debt owed by the Committee. However, there is reason to doubt, as outlined in this section, that during the actual reporting period (11/26/96 - 12/31/97) the parties were in agreement as to amount of the money owed to PTS by the campaign.

agency was extinguished with a final payment of \$8994.09 made on January 30, 1997.

On their face the above-referenced reports seem to indicate that the Committee assumed a debt in the amount of \$13,006.65 at some point during the 1996 30 Day Post-election period, which obligation was fully paid off in two installments as reflected in the next two disclosure reports.

However, the responses and the materials produced by both parties suggests instead that the debt was the subject of a dispute between the two that was not officially resolved until the signing of the previously mentioned Memorandum of Agreement and Understanding on January 30, 1997. Ted Phillips asserts in his affidavit that on or about December 15, 1996, he informed the Committee that "...taking into consideration all of the payments Cook had previously made, Cook owed PTS an additional \$16,689.18 for services rendered." According to the agency, the \$4012.96 payment made on December 19, 1996 decreased the balance to \$12,676.82. It was apparently sometime thereafter that the parties engaged in what may be described as serious and protracted negotiations resulting in an agreement that the amount of \$8994.09 would serve "as payment in full for all services rendered by PTS." The agreement was signed and the money paid on January 30, 1997. Therefore, it appears that a dispute regarding the amount of money owed to the consultant almost certainly existed during and after the time period encompassed by 1996 Year End Report.¹⁴ In this disclosure document, the Committee

¹⁴ It is not possible to state whether the debt was in fact incurred prior to this time period given the paucity of information regarding when the parties agreed that the agency would perform the services underlying this debt. Although the 1996 30 Day Post-election report does state that the debt was incurred during that same time period, this may in fact not be accurate given the evidence suggesting that the Committee routinely failed to report expenditures to another vendor, the R.T. Nielson Company, in a timely and appropriate manner. If the debt, and indeed the billing dispute with PTS, arose prior to the time period encompassed by the 1996 30 Day Post-election report then these items should have been disclosed on the

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cited a beginning balance of \$13,006.65 with the December 19, 1996 payment of \$4012.56 reducing the amount owed to \$8994.09, while the firm was claiming that the obligation was only reduced to \$12,676.82 with the aforementioned payment. It appears that the existence of this disputed debt should have been recorded at least on the 1996 Year End report. The parties own statements and the signed agreement make it clear that this dispute was not resolved until almost one month into the 1997 Mid-year reporting period. It also appears that this later report should have cited the continued existence of the debt and the circumstances under which it was finally extinguished on January 30, 1997.

There is no evidence in any of the available materials to suggest that PTS made a corporate contribution to the Cook Committee nor that the Committee in turn accepted any illegal contributions from the advertising agency. The facts suggest that the Committee came to doubt the quality and value of the services rendered by the advertising agency, which included such non-fungible items as conceiving television and radio ads. As stated earlier in this section, the two parties were disputing the value of said services. Sometime after the December payment of \$4012.56, the parties engaged in serious negotiations aimed at agreeing on the true value of the services rendered and the legitimate amount of the debt incurred by the Committee. Both parties agreed to settle their differences and apparently valued the outstanding bills for the advertising services at \$8994.09. With the signed agreement the Committee tendered a check to PTS for that amount. Given that the Committee paid the creditor the full amount of the agreed upon

appropriate forms. Additional questions should therefore be posed to the Committee in order to determine when the campaign actually assumed this debt.

debt it cannot be said that any difference between what the parties originally claimed was owed on this account constituted the acceptance of a corporate contribution, and therefore a violation the Federal Election Campaign Act of 1971, as amended, namely the acceptance of a corporate contribution.

Therefore, this Office recommends that the Commission find reason to believe that the Cook 98 Re-election Committee and its treasurer, Avis Lewis, violated 2 U.S.C. § 434(b) by failing to appropriately report the existence of a disputed debt and the settlement of same with Phillips, Twede & Stewart, Inc. Given that there is no suggestion that the candidate himself had any involvement in these particular activities, this Office recommends that the Commission find no reason to believe that Congressman Merrill Cook violated 2 U.S.C. § 434(b) with respect to his committee's dealing with Phillips, Twede & Stewart, Inc.

This Office also recommends that the Commission find no reason to believe that Phillips, Twede & Spencer, Inc., a registered Utah corporation, violated 2 U.S.C. § 441(b)(a). This Office further recommends that the Commission find no reason to believe that either Congressman Merrill Cook or the Cook 98 Re-election Committee and its treasurer, Avis Lewis, violated 2 U.S.C. § 441(b)(a).

III. INVESTIGATION

The Office of General Counsel does not intend to request permission to issue discovery subpoenas at this time. Instead, this Office seeks to ask for additional information from the Cook 98 Re-election Committee and Avis Lewis, as treasurer, relative to the methods utilized by the campaign to calculate and report campaign

expenditures and the assumption of debt. This request for information would take the form of a letter to the Committee and be limited in scope to its dealings with the two respondent vendors, the R.T. Nielson Company and Phillips, Twede & Spencer, Inc., during the 1996 election cycle. This Office believes that such a limited investigation will clarify the reporting issues that are at the heart of this MUR. After the receipt and evaluation of these additional materials and information, this Office hopes to return to the Commission with a Conciliation Agreement for its consideration.

IV. RECOMMENDATIONS

1. Find reason to believe that the Cook 98 Re-election Committee and Avis Lewis, as treasurer, violated 2 U.S.C. § 434(b) and approve the attached Factual and Legal Analysis with the appropriate letter.
2. Find no reason to believe that Congressman Merrill Cook violated 2 U.S.C. § 434(b).
3. Find no reason to believe that the R.T. Nielson Company violated 2 U.S.C. § 441(b)(a).
4. Find no reason to believe that Phillips, Twede & Stewart, Inc. violated 2 U.S.C. § 441(b)(a).
5. Find no reason to believe that Congressman Merrill Cook or the Cook 98 Re-election Committee and Avis Lewis, as treasurer, violated 2 U.S.C. § 441(b)(a).

Lawrence M. Noble
General Counsel

6/25/98
Date

BY: [Signature]
Lois Lerner
Associate General Counsel

Attachments:

1. Proposed Factual and Legal Analysis
2. R.T. Nielson Press Release, *Cook Consulting Team Quits Because of Non-Payment*, January 24, 1997.
Bob Bernick, Jr., *Firms Say Cook Refuses to Pay Up*, Deseret News, January 25, 1997.
3. Memorandum of Understanding and Agreement
4. R. T. Nielson Company Complaint to the Federal Election Commission

Staff member: Marianne Abely



FEDERAL ELECTION COMMISSION
Washington, DC 20463

MEMORANDUM

TO: Office of the Commission Secretary

FROM: Office of General Counsel *NO*

DATE: June 26, 1998

SUBJECT: MUR 4621-First General Counsel's Report

The attached is submitted as an Agenda document for the Commission Meeting of _____

Open Session _____

Closed Session _____

CIRCULATIONS

SENSITIVE ☒
NON-SENSITIVE ☐

72 Hour TALLY VOTE ☒

24 Hour TALLY VOTE ☐

24 Hour NO OBJECTION ☐

INFORMATION ☐

DISTRIBUTION

COMPLIANCE ☒

Open/Closed Letters ☐

MUR ☐

DSP ☐

STATUS SHEETS ☐

Enforcement ☐

Litigation ☐

PFESP ☐

RATING SHEETS ☐

AUDIT MATTERS ☐

LITIGATION ☐

ADVISORY OPINIONS ☐

REGULATIONS ☐

OTHER ☐